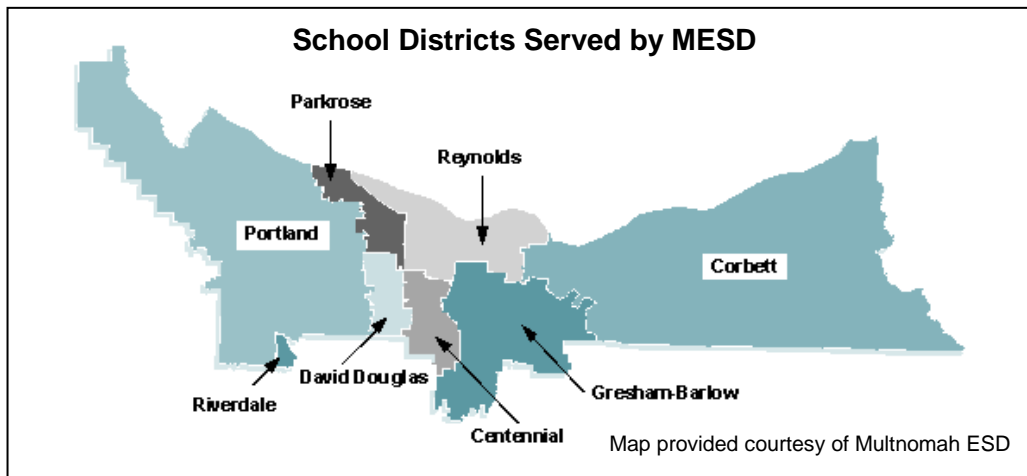


TSCC Budget Review 2017-18

Multnomah Education Service District

1. Introduction to the District

The Multnomah Education Service District serves the eight public school districts within Multnomah County. District boundaries extend into Clackamas and Washington counties along component school district boundaries.



2. History

The Multnomah Education Service District (MESD) evolved from the county school superintendent's office, first established in 1854. Responsibilities of that office were transferred from county government to an independent district in 1957. The state legislature formally established the ESD in 1963. In 1978, the name of the district was changed from Intermediate Education District to Multnomah Education Service District. Today, MESD staff work in over 160 schools and 25 community sites.

The seven member Board of Directors that governs the district serves without compensation. All Directors are elected to four-year terms: five from zones, and two elected at large.

The Multnomah ESD assists the Oregon Department of Education by administering state-level services and minimum education standards. The district also provides specialized education services and facilities on a cooperative basis to its component school districts. Many of the specialized services are those with limited demand that can be provided more efficiently and cost effectively on a regional basis. Costs for support services in Multnomah ESD are more than twice the cost of instruction due to the special needs of students. In component districts, support services costs are less than instruction costs.

3. Strategic Plan / Performance Objectives

The district initiated a comprehensive strategic planning process in 2017. When complete, the strategic plan will:

- Identify clear metrics
- Build systems for financial analysis and measurement of stakeholder satisfaction
- Realign resources to impact priorities

While this budget includes some alignment with emerging priorities, the strategic plan will more fully inform budget decisions in future years.

4. The Budget in Total

The district's budget is decreasing from \$81.5 million to \$81.3 million, a decrease of \$0.2 million (less than one percent).

Multnomah Education Service District				
Total Requirements - All Funds Combined				
(\$ Millions)				
	2014-15	2015-16	2016-17	2017-18
Personnel Services	\$ 32.3	\$ 32.9	\$ 37.8	\$ 41.7
Materials & Services	12.3	11.4	9.9	8.1
Transit Payments	13.3	14.3	12.0	14.3
Capital Outlay	0.1	0.1	0.1	0.0
Debt Service	3.1	3.2	3.3	2.9
Fund Transfers	5.6	6.1	5.8	5.6
Contingencies	-	-	6.9	4.9
Ending Fund Balance	11.2	11.0	5.6	3.8
TOTAL REQUIREMENTS	\$ 77.8	\$ 79.0	\$ 81.5	\$ 81.3

The 2017-18 Budget was developed using the Governor's two-year State School Fund (SSF) education funding level of \$8.0 billion.

- ESDs receive 4.5% of the total SSF distribution amount
- MESD's share of the SSF allotment is assumed to be \$40.4 million for 2017-18
 - Of this amount, an estimated \$32.1 million will be received from property taxes with the remaining \$8.2 million from the State School Fund.

Voters approved two ballot measures that could affect MESD, although this budget does not anticipate impacts.

- Measure 98: provides funding for dropout prevention as well as career and college readiness programs
 - MESD could potentially provide services to address Measure 98
- Measure 99: provides funding for Outdoor School for all students in the state
 - As an Outdoor School provider, MESD may increase the number of participants to its programs from across the state

Overall Expenditures:

Overall operating expenses increase in this budget by just under \$3.9 million from 2016-17 levels. Expenses in nearly all functional areas increase or stay the same with the exception of Enterprise and Community Services and Debt Service.

- Enterprise and Community Services costs decrease by nearly \$2.0 million in the Contracted Services Fund reflecting loss of a state contract for technology services.
- Certificate of Participation (original issue amount of \$7,000,000) bonds, issued in 1997 and refunded in 2004, to finance the acquisition of land and for constructing,

furnishing, equipping and making site improvements for district facilities were retired in May 2017.

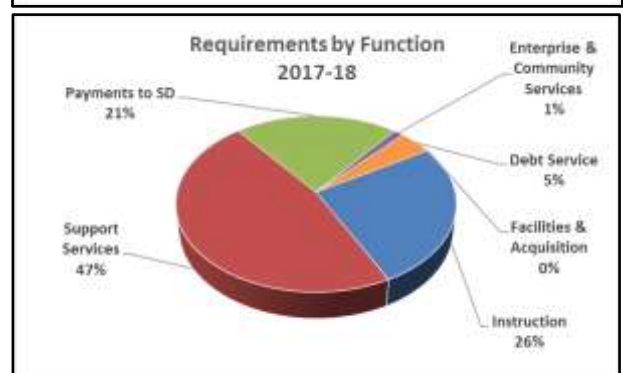
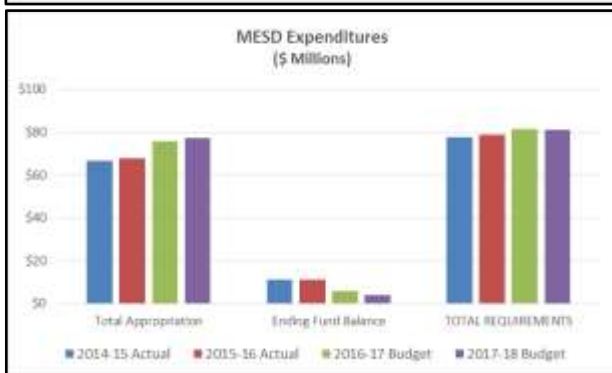
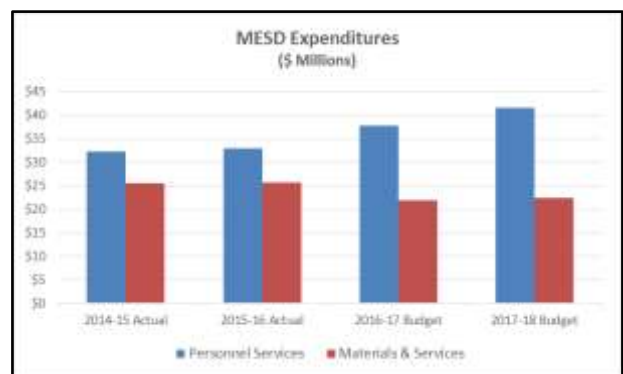
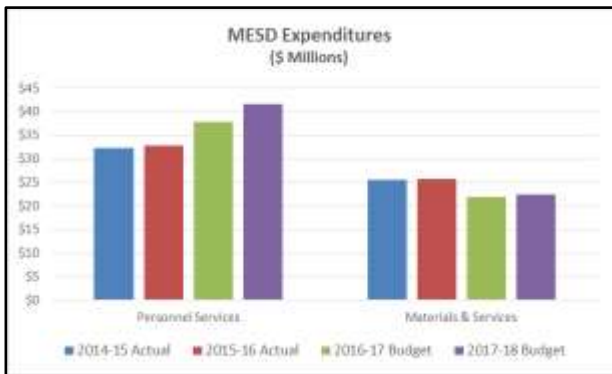
- o Frees previous debt expenses (\$0.5 million annually) for operations

Transit payments are “flow through” dollars from the state to component school districts.

- Transit payments total \$14.3 million in 2017-18. They are budgeted in the Resolution Services Fund.
- Not all school districts receive the same percentage of transit dollars. To provide consistency, the ESD established a policy to equalize allowable transit percentages across all eight districts

Significant changes from 2016-17 to 2017-18:

- Final expansion of the Portland Public Schools’ School Health Assistant program.
 - o Includes Cleveland, Grant, Lincoln and Wilson clusters
 - o School Health Assistants (SHA) are the primary point of contact at K-8 schools under the oversight of a Registered Nurse
 - o Increases Health Services Department expenses due to additional personnel
- Expansion of the Social and Emotional Skills Program (SESP).
 - o Adds three classrooms, which already have a waiting list
 - o Will likely be housed in the Knott building (lease negotiations in process with Parkrose School District)
 - o Adds teaching, education assistants and support staff positions



Personnel Services:

Personnel costs comprise 62% of the district’s total operating budget. The budget includes an increase of 48 FTE, most in Health Services, reflecting the expanded School Health Assistant Program with Portland Public Schools.

By Department	2014-15 Actual	2015-16 Actual	2016-17 Budget	2017-18 Budget
Administration	6.12	4.90	4.00	5.50
Facilities	8.75	8.75	11.00	13.00
Business Services	8.00	8.00	8.00	10.00
Human Resources	6.26	6.60	6.00	6.00
Technology Services	33.75	35.75	33.00	31.13
Special Education	149.72	135.47	165.89	183.73
School Health Services	111.58	107.75	120.18	142.34
Instructional Services	91.36	100.67	119.10	124.28
Total FTE	415.54	407.89	467.17	515.98

This budget includes:

- Step increases for eligible employees
- Use of agreed upon salary schedules for all represented employees
- PERS defined rates of 9.23% for Tier I/II, 3.90% for OPSRP, and 8.67% for Fire and Police
 - By comparison, PERS defined rates for 2016-17 were 5.55% for Tier I/II, 0.86% for OPSRP, and 4.97% for Fire and Police
- MESD contribution rate for PERS pickup is 6%
- Increased employer contribution for health insurance premiums capped at 6%

The district is currently in negotiations with MESDEA; this budget includes a placeholder assumption for those negotiations.

Materials and Services:

Overall Materials and Services are decreasing 18.2% in 2017-18.

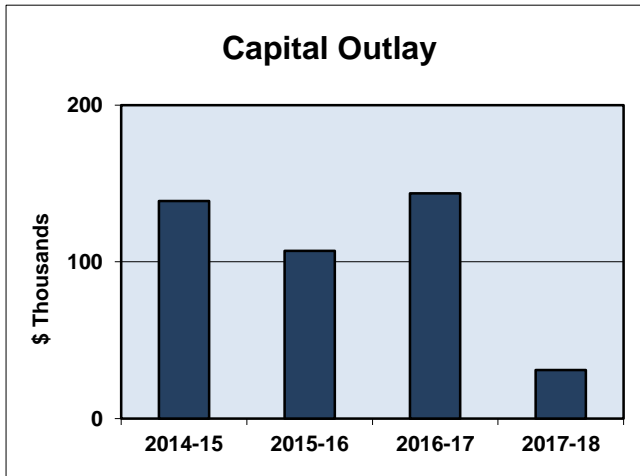
- Budgeted at \$8.1 million
 - Decreased by one-third from \$12.3 million in 2014-15

Capital Outlay:

The Facilities and Equipment Reserve Fund budgets capital outlay for improvements to ESD facilities. In addition, it also accounts for the setting aside of resources for future acquisition of major software, equipment and furniture.

The district reviews the condition of its facilities regularly and evaluates future improvement needs. If an improvement is expected to occur:

- In the current year, 100% of the expense is budgeted
- In one to five years, 20% is budgeted
- In six to ten years, the district sets aside 10% of the expense



The district budgeted for the following capital outlay projects in 2017-18.

- Classroom expansion at Knott building, to be leased from the Parkrose School District. Will include building modifications and the purchase of furniture, fixtures and equipment
- Carpet replacement and fire panel installation at Burlingame Creek (formerly Alpha High School), and Arata Creek facilities
- Basketball court cover installation at Burlingame Creek

Overall Revenues:

Like K-12 districts, the MESD receives a set amount of funding from the State of Oregon. If property taxes received are lower than projections, the state makes up the difference.

- MESD estimates the total amount to be received from the combination of property taxes and the State School Fund to be \$40,356,811
 - Increase of 4.5%
- Decrease of just over \$2.1 million in 'Other State Revenue'
 - Contract with State Department of Human Services (OR-Case) ended in Spring 2017
- Increase of just under \$1.0 million in Local Revenue

Multnomah Education Service District				
Total Resources - All Funds Combined (\$ Millions)				
	2014-15	2015-16	2016-17	2017-18
Property Taxes	\$ 28.4	\$ 29.7	\$ 30.9	\$ 32.1
Federal	2.9	2.4	1.7	1.6
State	15.1	17.5	17.5	15.9
Local	8.9	8.0	10.3	11.2
Other	0.9	0.9	0.5	0.5
Interest	0.1	0.1	0.1	0.1
Overhead Revenues	3.1	3.3	3.5	3.7
Fund Transfers	5.6	6.1	6.0	5.6
Beginning Fund Balance	12.8	11.2	11.0	10.6
TOTAL RESOURCES	\$ 77.8	\$ 79.0	\$ 81.5	\$ 81.3

Service Provision:

Local programs and services are provided to school districts in two ways: through resolution programs and through contracts.

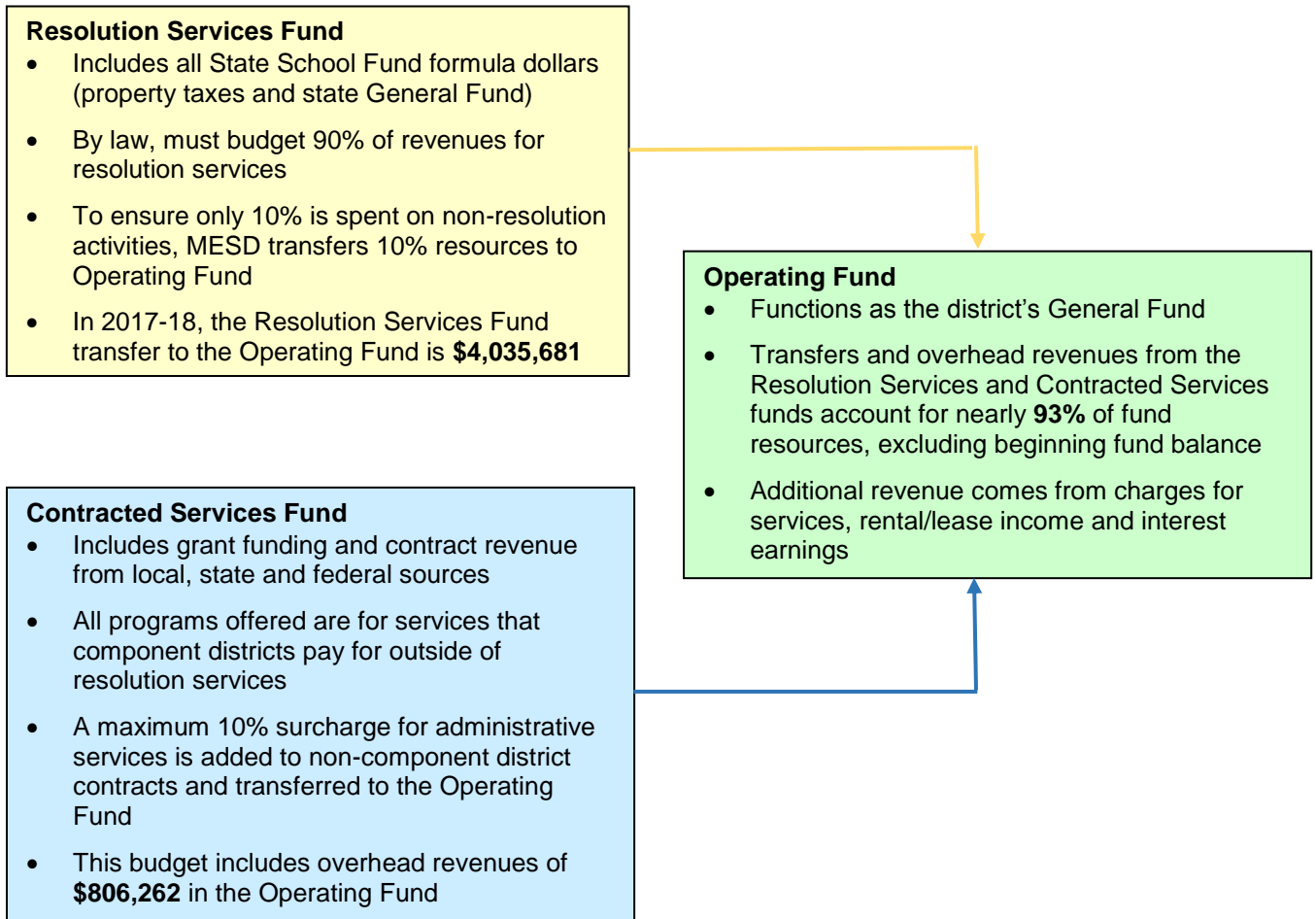
Resolution programs are programs that districts select to participate in and are funded by MESD using state and local revenues. These programs are those that are authorized by at least two-thirds of the school boards representing a majority of total county students. With an enrollment of over 50% of the total number of students served by MESD, Portland Public School District must be one of the authorizing districts. The following table shows the component school districts by number of students.

District	Total Schools	Total Enrollment*	Percent of Total
Centennial	14	6,275	6.7%
Corbett	1	1,238	1.3%
David Douglas	18	10,616	11.3%
Gresham-Barlow	23	12,124	12.9%
Parkrose	6	3,238	3.5%
Portland	108	48,198	51.3%
Reynolds	19	11,538	12.3%
Riverdale	2	628	0.7%

* Source: ODE Fall Membership Report 2016/17, www.oregon.gov/ode/reports-and-data/students

Contract Programs are education and administrative services that the component school districts - and districts outside of Multnomah County - choose to purchase.

This chart illustrates the relations between the Resolution Services Fund, the Contracted Services Fund, and the Operating Fund (which serves as the district's General Fund).



Senate Bill 250, adopted in the 2011 Legislative Session, substantially changed how ESD's operate. The bill:

- Allows component school districts to opt out of ESD services and receive funding for ESD services directly from the state
 - In 2017-18, none of the MESD component districts have chosen to opt out of MESD services
- Provides for additional oversight on ESDs from the Office of Regional Education Services, operating under the direction of the State Board of Education

5. Analysis of the Operating (General) Fund

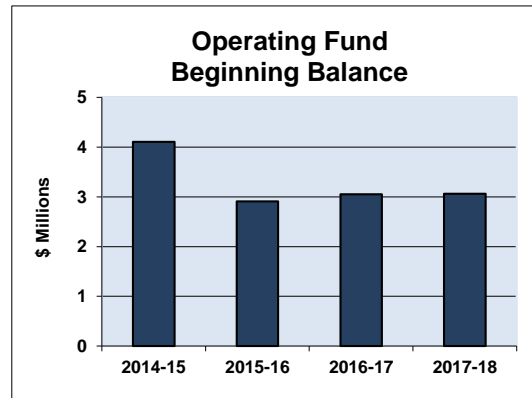
Multnomah ESD	2014-15 Actual	2015-16 Actual	2016-17 Budget	2017-18 Budget
Operating (General) Fund	8,891,372	8,274,701	8,703,904	8,292,062
Percent of Change from Prior Year	-7.9%	-6.9%	+5.2%	-4.7%

The beginning fund balance in the Operating Fund:

- Remains about the same in 2017-18, increasing by only \$14,085
- Accounts for about 37% of total fund resources

Operating Fund resources decreased just over \$411,000, or 4.7%, from 2016-17. The fund has three primary resources:

- A transfer from the Resolution Services Fund reflecting 10% of property taxes and state school funding revenue
 - Increases by \$174,000 in 2017-18
- Overhead charges for services provided in the Contract Services Fund
 - Decreases by 30.5%
- Beginning fund balance



Overall expenses for support services in the Operating Fund are split in this budget: five departments decrease funding while three increase.

- Administration: -\$58,189
- Facilities Services: -\$217,412
- Business Services: +\$281,128
- Human Resources: +\$47,949
- Technology Services: -\$389,001
- Special Education Services: -\$13,927
- School Health Services: -\$20,296
- Instructional Education Services: +\$27,791

This budget includes funding to support some emerging strategies that have been identified in the early stages of the strategic planning process.

- Adds two Business Partner positions to provide professional accounting and budgeting services direct to programs
- Adds an Employee Wellness position

In addition, the budget adds the following positions in the Operating Fund:

- Custodian position for Knott building
- Environmental Monitor position to support facility maintenance

The Operating Fund includes a transfer to the Facilities & Equipment Reserve Fund.

- \$489,009 is transferred for repairs, replacement and improvements to facilities and equipment
 - The large increase from past transfers of \$40,000 annually is due to the lease of the Knott building and necessary building modifications on that facility. Funds previously used for debt service (which has been paid in full) are reallocated to this transfer.

6. Analysis of Other Funds

Resolution Programs/Services Fund:

Resolution programs are funded from property taxes and state school fund revenue. The state allocates support by granting ESDs a percentage of the total amount available for K-12 school funding.

- Budget assumes 49% of biennial state funding for ESDs
 - Governor's budget funding level for SSF is \$8.0 billion
- Each ESD receives a fixed share of that total based on the local revenues and SSF of our component districts (ORS 327.019).
 - Funding is distributed to the component districts based on a district's proportion of total ADMw, with small districts, Corbett and Riverdale, receiving additional funding.

Component school districts select resolution program services within an allocated dollar amount. Basically, each district is given a menu of services from which to choose. This is called the Local Service Plan. The plan must:

- Include services from the following categories: special education, technology, school improvement and administrative support
- Include any "entrepreneurial services" that the ESD offers to entities that are not component school districts
- Services offered may be purchased as "all or nothing," per student or on an FTE basis

MESD conducted a year-long process with the districts to develop its Local Service Plan in 2016. Through this collaboration the district has increased the transparency of the Plan's development. The resulting content and pricing models are viewed more favorably by the component districts.

- No significant changes were made to the plan for 2017-18

Unlike the overall budget, appropriations for the Resolution Services Fund increase in 2017-18.

- Total budget is \$43.8 million, a 3.2% increase
- Transit dollars increase by \$2.3 million in this budget
- Instruction expenses decrease by \$64,000; Support Services by over \$2.3 million
- Funding includes additional 21.3 FTE in the School Health Services Department

- Contingency decreases 78.0%, from \$4.6 million to just over \$1.0 million

Contracted Programs/Services Fund:

In addition to resolution programs, component school districts may also contract with MESD for services such as cooperative purchasing, elementary science projects and vocational education. These services are accounted for in the Contracted Services Fund.

- The amount spent on contracted services can be seen as an indicator of the quality of services provided by MESD since purchase of these services is optional
- Also reflects the inability of districts to accurately predict the need for services when “purchasing” MESD services

The total budget in the Contracted Services Fund is \$23.3 million.

- 4.7% decrease from 2016-17
- District contract revenue increases \$0.9 million
 - Revenue from component districts increases 10.5%
 - Revenue from non-component districts consistent with 2016-17 projections
- State revenue decreases by just over \$2.1 million due to end of OR-Case contract
- Federal revenues increase slightly (0.5%) to \$1.2 million

Risk Management Fund:

The Risk Management Reserve Fund was established to set aside funding for costs associated with risk management activities. A benefit expense is applied to payroll to generate the funds necessary to support risk management activities:

- Payment of insurance premiums
- Prevent or minimize risk exposure
- Payment for incurred losses

7. Debt Status

The district has one area of outstanding debt:

- PERS Bonds (\$33,140,000) issued in 2004 to fund the unfunded actuarial liability (UAL) of the district.

Multnomah ESD	6-30-2014	6-30-2015	6-30-2016	6-30-2017 est.
Debt Outstanding	32,655,000	31,355,000	29,870,000	28,200,000

8. Budget Alignment with Strategic Plan / Performance Objectives

The district’s budget includes funding for some emerging priorities already identified during development of the strategic plan, however, the strategic plan as a whole was unable to be utilized. The strategic plan is expected to be complete in 2017 and will more fully inform budget decisions in future years.

9. Budget Process & Compliance

Yes	No	Compliance Issue (If not in compliance, explain below)
X		1. Did the District meet publication requirements?
X		2. Do resources equal requirements in every fund?
	N/A	3. Does the G.O. Debt Service Fund show only principle and interest payments?
X		4. Are contingencies shown only in operating funds?
X		5. Did the Budget Committee approve the budget?
X		6. Did the Budget Committee set the levy?
X		7. Does audit show the District was in compliance with budget law (no over-expenditures or budget violations)?

10. Highlights of the 2017-18 Budget to be published in TSCC Annual Report

- The total budget increased just under \$0.2 million, or 0.3%.
- The Operating Fund decreased by 4.7%, from \$8.7 million to \$8.3 million.
- The expenditure budget reflects two adjustments to the current services provided by MESD: final expansion of the Portland Public Schools’ School Health Assistants Program and expansion of the Social and Emotional Skills Program (SESP) in 2017-18.
- This budget shows a net increase of 49 FTE, most in Health Services, reflecting the expanded School Health Assistant Program.

Local Budget Law Compliance:

The 2017-18 Budget is in substantial compliance with local budget law. Estimates were judged to be reasonable for the purpose shown.

The audit report for fiscal year 2015-16 notes nothing that would cause the auditing agency to believe the district was not in substantial compliance with applicable state laws and administrative rules.

Certification Letter Recommendations and Objections:

TSCC staff notes no deficiencies in the district’s FY 2017-18 budget process.